

25-1100

TOWNSHIP OF GAINES,
GENESEE COUNTY, MICHIGAN

REPORT ON
AUDITED FINANCIAL STATEMENTS

March 31, 2004

Taylor &
Morgan
Certified Public Accountants

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name GAINES TOWNSHIP	County GENESEE
Audit Date 3/31/04	Opinion Date 5/19/04	Date Accountant Report Submitted to State: 12/9/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the comments and recommendations.

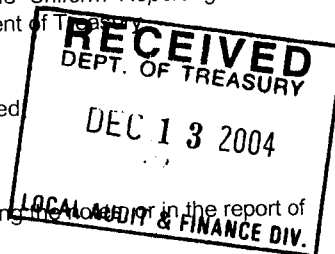
You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) TAYLOR & MORGAN P.C.			
Street Address G-2302 STONEBRIDGE DRIVE BLDG. D	City FLINT	State MI	ZIP 48532
Accountant Signature		Date	



TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Paul Fortino
Supervisor

Michael Dowler
Clerk

Diane Hyrman
Treasurer

Susan Somers
Trustee

Lee Purdy
Trustee

TOWNSHIP OF GAINES
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Certified Public Accountants

Independent Auditors' Report

May 19, 2004

To the Township Board
Township of Gaines
Genesee County, Michigan

Dear Board Members:

We have audited the accompanying general purpose financial statements of the Township of Gaines, Genesee County, Michigan, as of and for the year ended March 31, 2004. These combined financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Township of Gaines, Genesee County, Michigan, at March 31, 2004, and the results of its operations and cash flows of individual proprietary and similar trust funds for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 19, 2004 on our consideration of the Township of Gaines' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information is presented for the purpose of additional analysis and is not a required part of the financial statements of Township of Gaines, Genesee County, Michigan. The information has been subjected to the procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Sincerely,

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants

TOWNSHIP OF GAINES
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
MARCH 31, 2004
WITH COMPARATIVE TOTALS FOR MARCH 31, 2003

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only) March 31, 2004 2003	
	General	Special Revenue	Capital Projects	Enterprise	Agency Fund	General Fixed Assets	General Long-term Debt		
Assets									
Cash and cash equivalents	\$ 733,432	\$ 190,040	\$ 100,051	\$ 365,485	\$ 7,434	\$ -	\$ -	\$ 1,396,442	\$ 1,269,415
Investments	521,408	-	-	1,170,958	-	-	-	1,692,366	1,523,143
Receivables									
Delinquent taxes	10,941	18,521	-	-	-	-	-	29,462	26,428
Accounts	-	-	-	4,233	-	-	-	4,233	1,825
Intergovernmental	56,345	-	-	-	-	-	-	56,345	60,714
Interest	15,738	-	-	66,013	-	-	-	81,751	77,462
Special assessments	143,033	-	-	-	-	-	-	143,033	195,051
Due from others	-	-	52,471	-	-	-	-	52,471	-
Prepaid expenses	-	22,313	-	-	-	-	-	22,313	21,613
Property and equipment - net	-	-	-	409,866	-	1,411,599	-	1,821,465	1,810,021
Amount to be provided for retirement of long term debt	-	-	-	-	-	-	-	-	12,266
Total assets	\$ 1,480,897	\$ 230,874	\$ 152,522	\$ 2,016,555	\$ 7,434	\$ 1,411,599	\$ -	\$ 5,299,881	\$ 4,997,938
Liabilities and Fund Equity									
Liabilities									
Accounts payable	\$ 1,830	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,830	\$ 420
Accrued workers' compensation	-	-	-	-	-	-	-	-	5,658
Contingent lawsuit accrual	15,000	-	-	-	-	-	-	15,000	-
Deferred revenue	143,033	-	-	-	-	-	-	143,033	195,051
Due to other governmental units	-	-	-	-	7,433	-	-	7,433	9,085
Due to others	52,471	-	-	-	1	-	-	52,472	489
Long term bonds payable	-	-	-	-	-	-	-	-	12,266
Total liabilities	212,334	-	-	-	7,434	-	-	219,768	222,969
Fund Equity									
Investment in general fixed assets	-	-	-	-	-	1,411,599	-	1,411,599	1,392,386
Contributed capital	-	-	-	763,707	-	-	-	763,707	763,707
Retained earnings - unreserved	-	-	-	1,252,848	-	-	-	1,252,848	1,185,541
Fund equity									
Unreserved - designated	21,462	-	-	-	-	-	-	21,462	32,600
Unreserved - undesignated	1,247,101	230,874	-	-	-	-	-	1,477,975	1,400,735
Reserved for capital projects	-	-	152,522	-	-	-	-	152,522	-
Total fund equity	1,268,563	230,874	152,522	2,016,555	-	1,411,599	-	5,080,113	4,774,969
Total liabilities & fund equity	\$ 1,480,897	\$ 230,874	\$ 152,522	\$ 2,016,555	\$ 7,434	\$ 1,411,599	\$ -	\$ 5,299,881	\$ 4,997,938

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF GAINES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2004
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MARCH 31, 2003

	Governmental Fund Types			Totals (Memorandum Only) March 31	
	General	Special Revenue	Capital Projects	2004	2003
Revenues					
Taxes	\$ 145,670	\$ -	\$ -	\$ 145,670	\$ 125,298
Special assessments	-	285,331	-	285,331	224,401
Fees and permits	67,542	-	-	67,542	59,624
Intergovernmental	463,992	-	-	463,992	461,603
Administrative services	28,383	-	-	28,383	34,697
Fire contract	10,000	-	-	10,000	10,000
Interest	6,643	3,011	676	10,330	41,814
Reimbursements	52,471	-	-	52,471	141,665
Miscellaneous	4,607	108	-	4,715	785
Total revenues	779,308	288,450	676	1,068,434	1,099,887
Expenditures					
General government	205,541	-	-	205,541	230,748
Public works	213,015	265,507	-	478,522	574,837
Fire protection	142,087	-	-	142,087	129,434
Police protection	33,061	-	-	33,061	26,836
Other	88,866	-	329	89,195	52,841
Capital outlay	1,108	-	-	1,108	15,985
Total expenditures	683,678	265,507	329	949,514	1,030,681
Excess (deficiency) of revenues over (under) expenditures	95,630	22,943	347	118,920	69,206
Other financing sources (uses)					
Operating transfers in (out)	(52,471)	-	52,471	-	-
Total other financing sources (uses)	(52,471)	-	52,471	-	-
Excess of revenues over (under) expenditures and other financing sources (uses)	43,159	22,943	52,818	118,920	69,206
Fund balance - beginning of year	1,225,404	207,931	99,704	1,533,039	1,463,833
Fund balance - end of year	\$ 1,268,563	\$ 230,874	\$ 152,522	\$ 1,651,959	\$ 1,533,039

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2004

	General Fund			Capital Projects Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues									
Taxes	\$ 113,800	\$ 145,670	\$ 31,870	\$ -	-	-	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-	-	224,400	285,331	60,931
Fees and permits	65,675	67,542	1,867	-	-	-	-	-	-
Intergovernmental	512,614	463,992	(48,622)	-	-	-	-	-	-
Administrative services	26,000	28,383	2,383	-	-	-	-	-	-
Fire contract	10,000	10,000	-	-	-	-	-	-	-
Interest	1,610	6,643	5,033	-	676	676	1,000	3,011	2,011
Reimbursements	45,000	52,471	7,471	-	-	-	-	-	-
Miscellaneous	3,500	4,607	1,107	-	-	-	50	108	58
Total revenues	778,199	779,308	1,109	-	676	676	225,450	288,450	63,000
Expenditures									
General government	215,512	205,541	9,971	-	-	-	-	-	-
Public works	220,822	213,015	7,807	-	-	-	264,352	265,507	(1,155)
Fire protection	139,761	142,087	(2,326)	-	-	-	-	-	-
Police protection	39,342	33,061	6,281	-	-	-	-	-	-
Other	81,302	88,866	(7,564)	-	329	(329)	-	-	-
Capital outlay	32,850	1,108	31,742	-	-	-	-	-	-
Total expenditures	729,589	683,678	45,911	-	329	(329)	264,352	265,507	(1,155)
Excess (deficiency) of revenues over (under) expenditures	48,610	95,630	47,020	-	347	347	(38,902)	22,943	61,845
Other financing sources (uses) Operating transfers in/(out)	(46,000)	(52,471)	(6,471)	46,000	52,471	6,471	-	-	-
Excess revenues over (under) expenditures and other financing sources (uses)	2,610	43,159	40,549	46,000	52,818	6,818	-	-	-
Fund balance - beginning of year	1,225,404	1,225,404	-	99,704	99,704	-	207,931	207,931	-
Fund balance - end of year	\$ 1,228,014	\$ 1,268,563	\$ 40,549	\$ 145,704	\$ 152,522	\$ 6,818	\$ 169,029	\$ 230,874	\$ 61,845

The accompanying notes are an integral part of the financial statements

**TOWNSHIP OF GAINES
WATER AND WASTE FUND
COMPARATIVE BALANCE SHEET
MARCH 31, 2004 AND 2003**

	March 31,	
	<u>2004</u>	<u>2003</u>
ASSETS		
Cash & cash equivalents	\$ 365,485	\$ 524,327
Investments	1,170,958	953,835
Receivables:		
Accounts	4,233	1,825
Interest	66,013	51,626
Property & equipment - net	<u>409,866</u>	<u>417,635</u>
Total assets	\$ <u>2,016,555</u>	\$ <u>1,949,248</u>
LIABILITIES & FUND EQUITY		
Fund equity:		
Contributed capital	\$ 763,707	\$ 763,707
Retained earnings		
Unreserved	<u>1,252,848</u>	<u>1,185,541</u>
Total liabilities & fund equity	\$ <u>2,016,555</u>	\$ <u>1,949,248</u>

The accompanying notes are an integral part of the financial statements

**TOWNSHIP OF GAINES
WATER AND WASTE FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003**

	March 31,	
	2004	2003
Operating revenues		
Charges for services	\$ 256,084	\$ 227,181
Total operating revenues	256,084	227,181
Operating expenses		
Depreciation	7,769	7,769
Pump maintenance	17,741	17,635
County sewer charges	73,590	74,280
County water charges	110,244	126,866
City and village charges	611	785
Transportation fees	-	22,466
Tap in costs	4,500	15,300
Miscellaneous	35	74
Total operating expenses	214,490	265,175
Operating income/(loss)	41,594	(37,994)
Non-operating revenues (expenses)		
Interest income	38,243	44,663
Bond principal payments	(12,266)	(12,240)
Bond interest payments	(264)	(717)
Total non-operating revenues (expenses)	25,713	31,706
Net income/(loss)	67,307	(6,288)
Retained earnings - beginning of year	1,185,541	1,191,829
Retained earnings - end of year	\$ 1,252,848	\$ 1,185,541

The accompanying notes are an integral part of the financial statements

**TOWNSHIP OF GAINES
WATER AND WASTE FUND
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003**

	March 31,	
	2004	2003
Cash flows from operating activities:		
Net operating (loss)	\$ 41,594	\$ (37,994)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,769	7,769
(Increase) decrease in:		
Interest receivable	(14,387)	(41,955)
Accounts receivable	(2,408)	3,484
Net cash provided (used) by operating activities	32,568	(68,696)
Cash flows from financing activities:		
Bond principal payments	(12,266)	(12,240)
Bond interest payments	(264)	(717)
Net cash provided (used) by financing activities	(12,530)	(12,957)
Cash flows from investing activities		
Interest earned on investments	38,243	44,663
Purchases of investments	(217,123)	-
Net cash provided (used) by investing activities	(178,880)	44,663
Net increase (decrease) in cash & cash equivalents	(158,842)	(36,990)
Cash and cash equivalents - beginning of year	524,327	561,317
Cash and cash equivalents - end of year	\$ 365,485	\$ 524,327

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

TOWNSHIP OF GAINES, GENESEE COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE A - DESCRIPTION OF TOWNSHIP OPERATIONS AND FUND TYPES

The Township of Gaines is located in the southwestern portion of of Genesee County and covers an area of approximately 36 square miles. The Township operates under an elected, five-member Board of Trustees which also includes the elected Supervisor, Clerk, Treasurer, and two Trustees, and provides services, including fire protection, road maintenance, and police protection, to its residents.

Reporting Entity

In evaluating how to define the government, for financial purposes, management has considered all potential component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's general purpose financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Basis of Presentation

The financial activities of the Township of Gaines are recorded in separate funds and account groups, categorized as follows:

Governmental Funds

General Fund- This fund is used to account for all financial resources except those provided for in another fund. Revenues are derived primarily from property taxes, State shared revenues, and other intergovernmental revenues. The General Fund accounts for the general operating expenditures, which are not recorded elsewhere.

Special Revenue Funds - These funds are used for specific revenue (other than special assessments, expendable trusts, or major capital projects) derived from State and Federal grants, General Fund appropriations or charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Capital Project Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

Enterprise Funds – These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the government's council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the government's council has decided that periodic determination of net income is appropriate for accountability purposes.

TOWNSHIP OF GAINES, GENESEE COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE A - DESCRIPTION OF TOWNSHIP OPERATIONS AND FUND TYPES – (Continued)

Basis of Presentation (Continued)

Trust and Agency Funds

These funds account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include an agency fund.

Account Groups

General Fixed Assets Account Group - This account group presents the fixed assets of the Township utilized in its general operations (non-proprietary fixed assets).

General Long-Term Debt Account Group - This account group represents the long-term debt of the Township that is not recorded in the proprietary or trust funds.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Governmental Funds - All governmental funds utilize the modified accrual basis of accounting which provides that revenues be recorded when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred.

Property, Plant and Equipment - Capital expenditures within the operating funds are charged against operations during the year of purchase.

Other Financing Sources (Uses) - The transfers of cash between the various Township funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out).

Total Column on Combined Statements-Overview - The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

Budgets - Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Township's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

Cash & Cash Equivalents - Cash equivalents are short-term investments that are readily convertible into cash or have a maturity date of 12 months or less from the date of purchase. Investments represent certificates of deposit with a maturity of over 12 months and are recorded at cost, which approximates market.

TOWNSHIP OF GAINES, GENESEE COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Basis of Accounting (cont.)

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C - GENERAL LONG-TERM DEBT

The following is a summary of the Township's debt transactions for the year ended March 31, 2004:

	<u>Sanitary Sewer Bonds</u>
<u>Payable at March 31, 2003</u>	\$ 12,266
Debt Redeemed:	(12,266)
<u>Payable at March 31, 2004</u>	\$ <u>-0-</u>

NOTE D - RECOGNITION OF TAX REVENUE

The Township property tax is levied each December 1, on the state equalized valuation of property located in the Township as of the preceding December 31. The Township's 2003 ad valorem tax is levied and collectible on July 1 and December 1, 2003, and according to generally accepted accounting principles, revenues from the current tax levy as recognized in the current year when the proceeds of this levy are budgeted and made available for the financing of Township operations.

The 2003 taxable valuation of the Township of Gaines amounted to \$151,415,452 on which ad valorem taxes of .88 mills were levied for Township operating purposes.

NOTE E - INTERFUND PAYABLES/RECEIVABLES

As of March 31, 2004, the Township had the following interfund payables and receivables:

	<u>Due to Other Funds</u>	<u>Due From Other Funds</u>
General Fund	\$ 52,471	\$
Capital Projects Fund		52,471
	<u>\$ 52,471</u>	<u>\$ 52,471</u>

TOWNSHIP OF GAINES, GENESEE COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE F - CASH AND INVESTMENTS

The Township maintains separate deposit accounts for the General Fund, Special Revenue Fund, Enterprise Fund, Agency Fund and Capital Projects Fund. At March 31, 2004, the carrying amount of the Township deposits was \$3,170,433 and the bank balance was \$3,413,276. Of the bank balance, \$599,000 was covered by Federal depository insurance and \$2,814,276 was uninsured and uncollateralized.

Investments: Board policy authorized the district to invest in obligations of the U.S. Treasury, bank certificates of deposit, commercial paper rated prime, money market funds, and investment pools.

The Township investments are categorized as follows to give an indication of the level of risk assumed by the liability at March 31, 2004. Category one includes investments that are insured or registered for which the securities are held for the district or its agency in the Township's name. Category two includes uninsured and unregistered investments for which the broker or dealers hold the securities trust department or agent in the Township's name. Category three includes uninsured and unregistered investments for which securities are held by the broker or dealers, or by its trust department or agency but not in the Township's name. During the year, the Township has no outstanding investments that could be classified under any of the three categories.

NOTE G - PENSION PLAN

The Township has a qualified, contributory defined contribution pension plan covering elected officials and eligible employees. Eligible employees are those who work 40 hours per week on a regular basis. Manu Life Financial administers the plan, which was adopted by the Township Board on March 6, 1991. The Township will make contributions to the plan of 10% employees' annual compensation. Compensation is defined as the basic annual rate of pay in effect at the beginning of the plan year, not including overtime pay, bonuses, and commissions. For the fiscal year ended March 31, 2004, actual Township contributions totaled \$6,916. Participant plan contributions begin immediately with no waiting period for vesting. The plan is referred to as a money purchase pension plan and is not insured by the Pension Benefit Guaranty Corporation (PBGC).

NOTE H - RISK MANAGEMENT

The Township is exposed to various risks of loss in conducting its operations, from property and casualty theft and damage to various tort and liability claims. The Township purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect it from any significant adverse financial impact.

TOWNSHIP OF GAINES, GENESEE COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE I – BUILDING FUND

Michigan Department of Treasury Local Audit Letter 2000-6 states that local units can retain compliance with P.A. 245 of 1999, Statewide Construction Code Act, by accounting for building department revenues in the General Fund only as long as the local unit's fee structure is not intended to recover the full cost of the enforcing agency and the local unit has the ability to track the full costs and revenues of this activity without creating a separate fund. The Township of Gaines complies with these provisions, and therefore, the building department activity is recorded in the General Fund.

Building department revenues and expenditures for the year ended March 31, 2004, are as follows:

Revenues	\$44,046
Expenditures	\$45,234

The expenditures listed above include only direct costs for the building department; an allocation for occupancy, insurance and other indirect costs is not included. It is management's opinion that, were the indirect costs included, building department revenues would not recover the full cost of the activity.

NOTE J – CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance 3/31/03	Additions	Deletions	Balance 3/31/04
Land	\$ 30,000	\$ -0-	\$ -0-	\$ 30,000
Town hall & improvements	240,187	-0-	-0-	240,187
Fire hall & Improvements	156,405	1,108	-0-	157,513
Fire equipment	808,116	16,900	-0-	825,016
Furniture & equipment	157,678	1,205	-0-	158,883
	<u>\$1,392,386</u>	<u>\$ 19,213</u>	<u>\$ -0-</u>	<u>\$1,411,599</u>

NOTE K – PROPRIETARY FUND PROPERTY AND EQUIPMENT

A summary of proprietary fund property and equipment at March 31, 2004 follows:

	<u>Cost</u>	
Water and sewer lines and mains	\$ 582,687	Useful lives – 75 years
Less: accumulated depreciation	<u>172,821</u>	
	<u>\$ 409,866</u>	

TOWNSHIP OF GAINES, GENESEE COUNTY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE L-CONTINGENCIES

Gaines Township is currently a defendant in a civil lawsuit related to employment matters of a former elected official. The Township appealed an unfavorable decision of approximately \$82,000. A settlement conference was held on May 17, 2004 and as a result, it is the opinion of management and its legal counsel that the matter can be resolved at an amount not exceeding \$15,000.

Based upon this information, a \$15,000 contingent liability has been recorded in the Township's financial statements.

**FINANCIAL STATEMENTS
OF
INDIVIDUAL FUNDS**

**TOWNSHIP OF GAINES
GENERAL FUND
COMPARATIVE BALANCE SHEET
MARCH 31, 2004 AND 2003**

	March 31,	
	2004	2003
ASSETS		
Cash & cash equivalents	\$ 733,432	\$ 625,353
Investments	521,408	506,845
Receivables:		
Delinquent taxes	10,941	12,734
Intergovernmental	56,345	60,714
Interest	15,738	25,836
Special assessment	143,033	195,051
Total assets	\$ <u>1,480,897</u>	\$ <u>1,426,533</u>
LIABILITIES & FUND EQUITY		
Liabilities:		
Accounts payable	\$ 1,830	\$ 420
Accrued workers' compensation	-	5,658
Contingent lawsuit accrual	15,000	-
Due to other funds	52,471	-
Deferred revenue	143,033	195,051
Total liabilities	212,334	201,129
Fund equity:		
Unreserved, designated for fire operations	16,462	27,600
Unreserved, designated for police operations	5,000	5,000
Unreserved	1,247,101	1,192,804
Total fund equity	1,268,563	1,225,404
Total liabilities & fund equity	\$ <u>1,480,897</u>	\$ <u>1,426,533</u>

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF GAINES
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEARS ENDED MARCH 31, 2004 WITH COMPARATIVE TOTALS FOR MARCH 31, 2003

	Year ended March 31, 2004			Year Ended March 31, 2003
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
Revenues				
Taxes	\$ 113,800	\$ 145,670	\$ 31,870	\$ 125,298
Fees & permits	65,675	67,542	1,867	59,624
Intergovernmental	512,614	463,992	(48,622)	461,603
Administrative services	26,000	28,383	2,383	34,697
Fire contract	10,000	10,000	-	10,000
Interest	1,610	6,643	5,033	40,613
Reimbursements	45,000	52,471	7,471	141,665
Miscellaneous	3,500	4,607	1,107	725
Total revenues	<u>778,199</u>	<u>779,308</u>	<u>1,109</u>	<u>874,225</u>
Expenditures				
General government				
Trustees	3,420	2,770	650	3,870
Supervisor	12,240	12,240	-	12,183
Assessor	30,012	30,012	-	30,112
Elections	-	(548)	548	13,392
Clerk	17,240	16,692	548	15,528
Board of review	3,000	2,200	800	1,700
Treasurer	18,740	19,305	(565)	17,725
Building & grounds	10,710	9,416	1,294	9,346
General administration	120,150	113,454	6,696	126,892
Public works	220,822	213,015	7,807	316,854
Fire protection	139,761	142,087	(2,326)	129,434
Police protection	39,342	33,061	6,281	26,836
Other				
Planning	3,000	2,450	550	1,930
Zoning board of appeals	1,600	1,370	230	1,350
Insurance, bonds & fringes	31,052	24,812	6,240	25,843
Building inspector	45,650	45,234	416	23,718
Contingent lawsuit	-	15,000	(15,000)	-
Capital outlay	32,850	1,108	31,742	15,985
Total expenditures	<u>729,589</u>	<u>683,678</u>	<u>45,911</u>	<u>772,698</u>
Other financing sources (uses)				
Operating transfers out	(46,000)	(52,471)	(6,471)	(99,696)
Total other financing sources (uses)	<u>(46,000)</u>	<u>(52,471)</u>	<u>(6,471)</u>	<u>(99,696)</u>
Excess of revenues over (under) expenditures and other financing uses	2,610	43,159	40,549	1,831
Fund balance at beginning of year	<u>1,225,404</u>	<u>1,225,404</u>	<u>-</u>	<u>1,223,573</u>
Fund balance at end of year	<u>\$ 1,228,014</u>	<u>\$ 1,268,563</u>	<u>\$ 40,549</u>	<u>\$ 1,225,404</u>

The accompanying notes are an integral part of the financial statements

**TOWNSHIP OF GAINES
WASTE AND REFUSE SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEET
MARCH 31, 2004 AND 2003**

	March 31,	
	<u>2004</u>	<u>2003</u>
ASSETS		
Cash & cash equivalents	\$ 190,040	\$ 110,161
Investments	-	62,463
Taxes receivable	18,521	13,694
Prepaid expense	<u>22,313</u>	<u>21,613</u>
 Total assets	 \$ <u>230,874</u>	 \$ <u>207,931</u>
 LIABILITIES & FUND EQUITY		
Fund balance -		
Unreserved & undesignated	\$ <u>230,874</u>	\$ <u>207,931</u>
 Total liabilities & fund equity	 \$ <u>230,874</u>	 \$ <u>207,931</u>

See notes to financial statements

**TOWNSHIP OF GAINES
WASTE AND REFUSE SPECIAL REVENUE FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003**

	Year ended March 31,	
	2004	2003
Revenues		
Special assessment taxes	\$ 285,331	\$ 224,401
Miscellaneous	108	60
Interest	3,011	1,193
Total revenues	<u>288,450</u>	<u>225,654</u>
Expenditures:		
Solid waste disposal		
Contracted services	<u>265,507</u>	<u>257,983</u>
Total expenditures	<u>265,507</u>	<u>257,983</u>
Excess of revenue over/ (under) expenditures	22,943	(32,329)
Fund balance at beginning of year	<u>207,931</u>	<u>240,260</u>
Fund balance at end of year	\$ <u><u>230,874</u></u>	\$ <u><u>207,931</u></u>

See notes to financial statements

**TOWNSHIP OF GAINES
AGENCY FUNDS
COMBINING BALANCE SHEET
MARCH 31, 2004 AND 2003**

	Agency Fund	Tax Fund	March 31, 2004	2003
ASSETS				
Cash & cash equivalents	\$ -	\$ 7,434	\$ 7,434	\$ 9,574
Total assets	<u>\$ -</u>	<u>\$ 7,434</u>	<u>\$ 7,434</u>	<u>\$ 9,574</u>
LIABILITIES				
Due to:	\$	\$	\$	\$
Other governmental units	-	7,433	7,433	9,085
Due to other funds	<u>-</u>	<u>1</u>	<u>1</u>	<u>489</u>
Total liabilities	<u>\$ -</u>	<u>\$ 7,434</u>	<u>\$ 7,434</u>	<u>\$ 9,574</u>

See notes to financial statements

**TOWNSHIP OF GAINES
CAPITAL PROJECTS FUND
COMPARATIVE BALANCE SHEET
MARCH 31, 2004 AND 2003**

ASSETS			
	Cash & cash equivalents	\$ 100,051	\$ 99,704
	Due from other funds	<u>52,471</u>	<u>-</u>
Total assets		<u>\$ 152,522</u>	<u>\$ 99,704</u>
 LIABILITIES & FUND EQUITY			
	Retained earnings		
	Unreserved	\$ <u>155,522</u>	\$ <u>99,704</u>
Total liabilities & fund equity		<u>\$ 155,522</u>	<u>\$ 99,704</u>

See notes to financial statements

**TOWNSHIP OF GAINES
CAPITAL PROJECTS FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED MARCH 31, 2004 AND 2003**

	Year Ended March 31,	
	2004	2003
Revenues		
Interest	\$ 676	\$ 8
Total revenues		8
Expenditures:		
Office Supplies	329	-
Total expenditures	329	-
Excess of revenue over (under) expenditures	347	8
Other financing sources		
Operating transfer in	52,471	99,696
Total other financing sources	52,471	99,696
Excess of revenues over expenditures and other financing sources	52,818	99,704
Fund balance at beginning of year	99,704	-
Fund balance at end of year	\$ 152,522	\$ 99,704

See notes to financial statements



Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

May 19, 2004

To the Township Board
Township of Gaines

We have audited the financial statements of the Township of Gaines as of and for the year ended March 31, 2004, and have issued our report thereon dated May 19, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Township of Gaines's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Township of Gaines's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the board of The Township of Gaines. However, this report is a matter of public record, and its distribution is not limited.

Taylor & Morgan, P.C.

TAYLOR & MORGAN, P.C.
Certified Public Accountants



Certified Public Accountants

July 6, 2004

Township Board
Township of Gaines
Gaines, Michigan

We have audited the financial statements of the Township of Gaines as of and for the year ended March 31, 2004 and have issued our report thereon dated May 19, 2004. As part of our audit, we made a study and evaluation of the township's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted accounting principles. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the township's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Township of Gaines is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole. While our study and evaluation disclosed no condition that we believe to be a material weakness, the following are areas where reviews and/or modifications may be advisable.

GASB Statement No. 34

The Township of Gaines is required to implement GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*" for the year ending March 31, 2005. This statement redefines and radically increases the type of financial reporting a governmental organization must provide to the readers of its audited financial statements.

The addition of government-wide financial statements and the Management's discussion and analysis (MD & A) to the existing financial statements will help the reader better assess the overall financial position of the government entity. The government wide financial statements will be prepared using full accrual accounting and will also include capital assets at depreciated value. The MD & A will include a summary and analysis of the government's financial activities and performance.

Budget vs. actual schedules will be expanded to show the original budget, amended budget and actual results.

The Township should identify the timeframe and process of compiling necessary fixed asset and depreciation data. We are available to assist the township, should it need assistance, in compiling or maintaining fixed asset and other data. We appreciate the opportunity to be of service.

Document Retention and Record Maintenance-(Prior Year Comments)

Voided Checks

Currently, the Township keeps its voided checks and writes, "void" on the face of the instrument. As an additional safeguard we recommend that the signature portion be removed before filing.

We noted that the client has implemented this procedure in the current year

Employee Files

While auditing the payroll expenses of the Township, we noted that the Office Manager/Secretary's personnel file was lacking a employment agreement stating at a minimum the rate of pay, paid time off and the status as an at-will employee. This lack of documentation became more of an issue when an additional pay was made and could not be traced to any support. Although it was later determined that two weeks vacation was a part of the agreement and the additional payment was for that reason, there was no documentation to that effect in the personnel file or Board minutes. We recommend that the Township consult with its legal counsel on the advisability of having signed employment agreements for its non-elected employees.

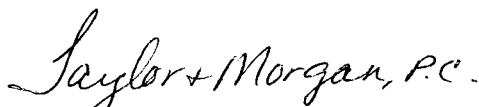
In the current year, the client contracted the services of a professional and had a personnel manual written. This manual was given to each employee which was signed and placed in their respective personnel files.

Prenumbered Receipts

We recommend that the Township reconcile its prenumbered receipts to the deposits made. We also recommend that the all receipts be accounted for. These steps will ensure that the Township is capturing the total bank deposit being receipted and that all receipts written/voided are being accounted for.

We noted the client has implemented this procedure in the current year.

Sincerely,



Taylor & Morgan, P.C.
Certified Public Accountants